

Division of Securities
Utah Department of Commerce
160 East 300 South
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
FAX: (801)530-6980

**BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH**

IN THE MATTER OF:

**SCOTT LAMAR RHOADS;
ZACHARIA LAMAR RHOADS; and
AUTO RAMA, L.L.C.**

Respondents.

ORDER TO SHOW CAUSE

Docket no. SD-05-0077
Docket no. SD-05-0078
Docket no. SD-05-0079

It appears to the Director of the Utah Division of Securities (Director) that Scott Lamar Rhoads, Zacharia Lamar Rhoads, and Auto Rama, L.L.C. (collectively Respondents) may have engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered during the course of the Utah Division of Securities' (Division) investigation of this matter, the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

STATEMENT OF JURISDICTION

1. Jurisdiction over the Respondents is appropriate in this matter because the Division alleges that the Respondents violated § 61-1-1 (Securities Fraud), § 61-1-3 (Sale by

Unlicensed Agent and Employing Unlicensed Agent) and § 61-1-7 (Sale of Unregistered Securities) of the Act while engaged in the offer and sale of securities in Utah.

STATEMENT OF FACTS

THE PARTIES AND ENTITIES

2. Scott Lamar Rhoads (S. Rhoads) resides in Weber County, Utah.
3. Zacharia Lamar Rhoads (Z. Rhoads), S. Rhoads' son, resides in Weber County, Utah.
4. Auto Rama, L.L.C. (Auto Rama) registered as a Utah corporation on May 22, 2002.

According to the Utah Department of Commerce's on-line business entity database, as of August 12, 2004, Auto Rama's corporate status is "Active". Auto Rama's business address is listed as 1528 North 350 East, Kaysville, Utah, however Auto Rama's car lot was located at 746 N. Harrisville Road, Harrisville, Utah. Z. Rhoads is the registered agent and sole manager of Auto Rama.

GENERAL ALLEGATIONS

5. Between February 2003 and November 2005, Respondents solicited more than \$800,000 from nine Utah investors, providing each investor with a promissory note for each investment. One investor, during a thirteen-month period of time, purchased 462 notes.
6. All of the promissory notes were issued by "AUTORAMA" and signed by Z. Rhoads. The majority of the notes were unsecured, short-term (two months), and offered a \$250 profit to the investor. Most of the investments ranged from three and ten thousand dollars.
7. Potential Auto Rama investors were solicited exclusively by S. Rhoads. When S. Rhoads was not available, Z. Rhoads would meet with investors to pay or renew a note.

8. S. Rhoads told investors their funds would be used to purchase automobiles at wholesale which would be placed on Auto Rama's car lot for sale. When the automobiles sold, the investor would be paid their principal investment plus the \$250 profit. S. Rhoads told investors if the automobiles did not sell within two months, the investor would receive the \$250 profit and the note would be renewed for another two months.
9. S. Rhoads told investors their investments would be secured by the automobiles purchased with their investment funds. S. Rhoads wrote the last six numbers of the vehicle identification number on the promissory note along with a description of the vehicle. Starting in September 2003, S. Rhoads gave investors the vehicle titles with the promissory notes, but this practice lasted only a couple of months. In about November or December 2003, S. Rhoads began giving investors a copy of the wholesale purchase invoice with their notes, thereby leaving the investor unsecured.
10. Auto Rama note holders were typically friends and acquaintances of the Rhoads who referred their friends and acquaintances to S. Rhoads.
11. In most cases, investors held several notes over the time period they invested in Auto Rama inventory. When a promissory note came due and an investor received his or her principal investment plus the \$250 profit, he or she typically rolled the entire amount into a new Auto Rama note.
12. Respondents started missing payments to investors in November 2004, and the payments completely stopped in June 2005. Despite this, Respondents continued rolling over the notes, promising additional earnings.

13. In November 2004, while in the presence of S. Rhoads, investor R.B. was informed by former investor, G.H. that Auto Rama was in financial trouble. G.H. told R.B. that S. Rhoads and Auto Rama owed \$50,000 to Ken Garff, \$50,000 to Brasher's Auto Auction, and \$50,000 in taxes to the state. S. Rhoads remained silent while G.H. explained this to R.B. G.H. asked R.B. to take a smaller fee on the automobiles sold by Auto Rama so S. Rhoads could stay in business.
14. All together, investors lost approximately \$820,000 from their investments in Auto Rama.

CAUSES OF ACTION

COUNT I

Securities Fraud under § 61-1-1 of the Act (Scott Lamar Rhoads, Zacharia Lamar Rhoads, Auto Rama, L.L.C.)

15. The Division incorporates and re-alleges paragraphs 1 through 14.
16. The promissory notes offered and sold by Respondents are securities under §61-1-13 of the Act.
17. In connection with the offer and sale of securities to Utah investors, Respondents, directly and / or indirectly, made the following material false statements:
 - a. That investors' promissory notes were secured by vehicles, when in fact many of the vehicles were already pledged to Brasher's Auto Auction, and investors did not have possession of the car titles (which is the only way to perfect a security interest in a vehicle); and
 - b. That a single promissory note was secured by a single vehicle, when in fact the same vehicle often secured many notes.

18. In connection with the offer and sale of a security to Utah investors, Respondents, directly and/or indirectly, failed to disclose material information, including, but not limited to, the following:
- a. That on October 5, 2001, a judgment of \$3,170,562 was entered against S. Rhoads by First Security Bank of Utah;
 - b. That on April 28, 2003, the Utah State Tax Commission filed nine tax liens against S. Rhoads, totaling \$206,871;
 - c. That as of November 2004, Auto Rama and S. Rhoads owed Ken Garff Automotive and Brasher's Auto Auction \$50,000 each;
 - d. That S. Rhoads' former car lot, Dusty's Inc., was a failure and resulted in lawsuits by dissatisfied investors;
 - e. That on May 12, 2004, a landlord filed an action to evict Z. Rhoads from property located in Eden, Utah;
 - f. That on July 6, 2004, Z. Rhoads and Auto Rama entered into a Dealer Flooring Agreement with Brasher's Auto Auction, in which Z. Rhoads and Auto Rama granted Brasher's a security interest in "all of its inventory, present and future, or used motor vehicles, and all proceeds of sale or other disposition of the foregoing." On March 23, 2004 and again on July 1, 2004, Auto Rama and Z. Rhoads filed UCC Financing Statements¹ with the Utah Department of

¹ A UCC Financing Statements is a document typically filed with the Secretary of State to provide public notice of a security interest in personal property.

Commerce, reflecting Brasher's security interest in all of Auto Rama's vehicle inventory;

- g. That on July 6, 2004, Z. Rhoads, S. Rhoads and Shauna Rhoads signed a Personal Guaranty to Brasher's Auto Auctions, personally guaranteeing performance on the above mentioned Dealer Flooring Agreement;
- h. That on July 30, 2004, a plaintiff filed a small claims action against Z. Rhoads, in which Z. Rhoads was ordered to pay plaintiff \$500. The action was dismissed by stipulation of the parties on January 11, 2005;
- i. That on August 26, 2004, a local construction company filed a small claims action against Z. Rhoads, which was later dismissed in May 2005;
- j. That on April 6, 2005, a local construction and development company filed a lien / mortgage foreclosure action against Z. Rhoads;
- k. That on August 22, 2005, the Utah State Tax Commission filed two tax liens: one against Auto Rama for \$25,521.69, and one against Z. Rhoads for \$14,439.70. Both of the tax liens were dismissed on August 29, 2005;
- l. That on October 12, 2005, a landlord filed an action to evict Z. Rhoads;
- m. That on October 31, 2005, the Utah State Tax Commission filed two tax liens against Auto Rama totaling \$40,289.86;
- n. That on November 5, 2005, Brasher's Auto Auction filed an action against Auto Rama, Z. Rhoads, S. Rhoads, and Shauna Rhoads, regarding a contract dispute. In the complaint, Brasher's alleges breach of contract and misrepresentation /

fraud in connection with a Dealer Flooring Agreement, and alleges that Auto Rama owes Brasher's \$525,181;

- o. The track record of Auto Rama in repaying promissory notes to its investors;
 - p. Whether the investment was marketable (i.e., was liquid);
 - q. That the securities being offered and sold were not registered, as required, and that the sellers of the investment program were not licensed to sell securities in Utah, as required; and
 - r. The type of information ordinarily given to investors in a prospectus including financial statements, descriptions of the backgrounds of company officers and directors, the intended use of proceeds, a list of the risk factors relating to the investment, and a discussion of the company's business operations.
19. Based upon the foregoing, Respondents violated § 61-1-1 of the Act.

COUNT II
Sale by an Unlicensed Agent under § 61-1-3
(Scott Lamar Rhoads and Zacharia Lamar Rhoads)

20. The Division incorporates and re-alleges paragraphs 1 through 19.
21. Between February 2003 and November 2005, S. Rhoads and Z. Rhoads offered and/or sold securities in or from this state.
22. The securities were sold by S. Rhoads and Z. Rhoads as an agent of the issuer (Auto Rama) and not through a broker-dealer.
23. A search of the Division's records and the records of the Central Registration Depository reveals that neither S. Rhoads nor Z. Rhoads have been licensed to sell securities in Utah as an agent or broker-dealer.

24. Based upon the foregoing, S. Rhoads and Z. Rhoads violated § 61-1-3 of the Act.

COUNT III
Employing an Unlicensed Agent under § 61-1-3
(Z. Rhoads & Auto Rama, LLC)

25. The Division incorporates and re-alleges paragraphs 1 through 24.
26. Auto Rama and Z. Rhoads, as the managing member of Auto Rama, hired an unlicensed agent, S. Rhoads, to offer and sell its securities in Utah.
27. Based upon the foregoing, Auto Rama and Z. Rhoads violated Utah Code Ann. § 61-1-3(2)(a).

COUNT IV
Sale of an Unregistered Security under § 61-1-7
(Scott Lamar Rhoads, Zachary Lamar Rhoads, & Auto Rama, LLC)

28. The Division incorporates and re-alleges paragraphs 1 through 27.
29. The securities offered and sold by the Respondents are not registered with the Division, not federal covered securities for which a notice filing has been made, nor has any other exemption filing been made with the Division.
30. Based upon the foregoing, Respondents violated Section 61-1-7 of the Act.

ORDER


The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondents to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63-46b-4 and 63-46b-6 through -10, and held before the Utah Division of Securities. The hearing will occur on Thursday, February 2, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah. If Respondents fail to file an answer and appear at the hearing, an order to cease and desist may be

issued and a fine imposed by default against Respondents, as provided by Utah Code Ann. §63-46b-11. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-

10. At the hearing, Respondents may show cause, if any they have:

- a. Why Respondents should not be found to have engaged in the violations alleged by the Division;
- b. Why Respondents should not be barred from obtaining a securities license in the future under the provisions of Utah Code Ann. § 61-1-20;
- c. Why Respondents should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. §§ 61-1-1, 61-1-3, 61-1-7, or any other section of the Act;
- d. Why Auto Rama should not be ordered to pay a fine of \$50,000 to the Division;
- e. Why S. Rhoads should not be ordered to pay a fine of \$25,000 to the Division;
and
- f. Why Z. Rhoads should not be ordered to pay a fine of \$25,000 to the Division.

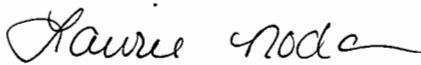
DATED this 30th day of December, 2005.



WAYNE KLEIN

Director, Utah Division of Securities

Approved:



LAURIE NODA

Assistant Attorney General

Division of Securities
Utah Department of Commerce
160 East 300 South
Box 146760
Salt Lake City, UT 84114-6760
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**BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH**

IN THE MATTER OF:

**SCOTT LAMAR RHOADS,
ZACHARIA LAMAR RHOADS and
AUTO RAMA, L.L.C.**

Respondents.

NOTICE OF AGENCY ACTION

Docket no. Sb-05-0077

Docket no. Sb-05-0078

Docket no. Sb-05-0079

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of the mailing of the Order to Show Cause. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§63-46b-3 and 63-46b-6 through 11. The facts on which this action is based are set forth in the foregoing Order to Show Cause.

Within thirty (30) days of the mailing date of this notice, you are required to file a written response with the Division. The response you file may be helpful in clarifying, refining or narrowing the facts and violations alleged in the Order to Show Cause. **A hearing date has been set for Thursday, February 2, 2006, at 9:00 a.m., at the office of the Utah Division of**

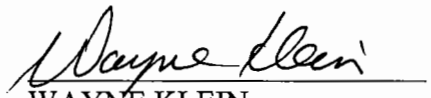
Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah.

If you fail to file a written response, as set forth herein, or fail to appear at the hearing, the Division of Securities may hold you in default, and a fine may be imposed against you in accordance with Utah Code Ann. § 63-46b-11, without the necessity of providing you with any further notice. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, you may appear and be heard and present evidence on your behalf. You may be represented by counsel during these proceedings.

The presiding officer in this case is Wayne Klein, Director, Division of Securities, 160 East 300 South, P.O. Box 146760, Salt Lake City, UT 84114-6760, telephone (801) 530-6600. The Administrative Law Judge will be J. Steven Eklund, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6648.

Your written response should be filed with the Division, attention Pam Radzinski, P.O. Box 146760, Salt Lake City, Utah 84114-6760. A copy also should be mailed to the Division's attorney, Jeff Buckner, Assistant Attorney General in the Utah Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City Utah 84114-0872, telephone (801) 366-0310. Questions regarding the Order to Show Cause and Notice of Agency Action should be directed to Jeff Buckner.

DATED this 30th day of December, 2005.


WAYNE KLEIN
Director, Division of Securities
Utah Department of Commerce

Certificate of Mailing

I certify that on the 30th day of December, 2005, I mailed, by certified mail, a true and correct copy of the Order to Show Cause and Notice of Agency Action to:

Scott L. Rhoads
3048 North 5100 East
Eden, Utah 84310

Certified Mail # 7004 2510 0006 1196 9698

Zacharia L. Rhoads
3048 North 5100 East
Eden, Utah 84310

Certified Mail # 7004 2510 0006 1196 9704

Auto Rama, L.L.C.
746 N. Harrisville Road
Harrisville, Utah 84404

Certified Mail # 7004 2510 0006 1196 9711

Pamela Radzinski
Executive Secretary